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SUBJECT: UKRAINE CRISIS MEASURES PASSED TO UN-DISSOLVED RADA

REF: A) KYIV 2012; B) KYIV 2111

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¶1. (SBU) Summary. Ukraine's National Security and Defense Council (NSDC) approved a series of as yet unpublished anti-crisis proposals on October 20, designed to stave off a worsening financial emergency. President Viktor Yushchenko temporarily lifted his decree on parliament's dissolution to allow the Verkhovna Rada to pass the NSDC's recommended package in the upcoming days. Although Rada deputies briefly gathered on October 21, they could neither agree upon an agenda, nor did they have concrete proposals to consider. The International Monetary Fund (IMF) remains mum, but National Bank of Ukraine (NBU) Governor Volodymyr Stelmakh suggested an assistance package could be approved as early as this week. The NBU hinted that a more flexible exchange rate policy may be in the works, and both Yushchenko and Prime Minister Tymoshenko indicated that high growth rates of social spending, a major cause of both growth and inflation in recent years, would be reduced as part of any anti-crisis package. End Summary.

NSDC Pushes Proposals

¶2. (SBU) Members of the National Security and Defense Council met late on October 20 to consider broad measures aimed at shoring up Ukraine's banking system and broader economy. President Yushchenko announced that representatives from the Finance Ministry and the NBU had drafted the NSDC's decision on tackling the financial crisis, so that the "government, the National Bank and other institutions in Ukraine speak in one language and make joint and clear assessments." Yushchenko also stated that the NSDC criticized attempts by the government to disrupt early elections. The NSDC's approved package reportedly consists of ten bills whose central features are a 50 billion hryvnia stabilization fund (roughly \$10 billion), increased deposit insurance, plans to reschedule external debt, and reductions in social spending. While the President offered no comment on funding for the proposals, NBU's Stelmakh stated that the "ball is now in the government's court."

¶3. (SBU) According to statements made by Yushchenko and subsequent media reports, the stabilization fund would be used to buy equity stakes in distressed companies, including banks, and would be funded through privatization revenues and central government borrowing, implying that the fund would not be financed until deep into 2009 unless some sort of temporary financing was found in the meantime. The funds available to Ukraine's bank deposit insurance system would be increased by 1 billion hryvnia (about \$200 million), and insurance per deposit would be doubled from 50,000 to 100,000 hryvnia. Yushchenko also reportedly said that the Cabinet of Ministers should be empowered "for at least half a year" to set customs tariffs at levels needed to prevent an erosion of the balance of payments, which many observers interpreted as a sign that Ukraine might raise import tariffs, possibly seeking exceptions to

WTO commitments to do so.

Yushchenko Un-Dissolves Parliament

14. (SBU) With the NSDC meeting as his prop, Yushchenko dramatically lifted the suspension of his decree that had dissolved the Rada (Ref A), stating "tomorrow we'll see who is really interested in escalating tensions." On October 21, deputies arrived at the assembly building, only to find that there was no agenda or legislation to consider. Prime Minister Yulia Tymoshenko's BYuT party delegates then obstructed the rostrum. One BYuT deputy told EmbOff that his faction would continue to block plenary sessions until the anti-crisis measures were at the top of the agenda. (Note: It is more likely that the holdup was due to the difficulty of producing paperwork overnight on complex anti-crisis measures.)

15. (SBU) Separately, Timoshenko announced that the Cabinet of Ministers would be forced to limit social spending due to the financial crisis, echoing statements she made to the Ambassador late on October 20 (Ref B). Timoshenko commented that the envisioned budget limitations would be made in the framework of anti-crisis legislation, but she did not spell out whether they would be consistent with actions already proposed by the NSDC. As such, it is not clear whether Timoshenko's statement is a deliberate attempt to assert policy independence or a simple lack of coordination between erstwhile coalition partners.

16. (SBU) In his public remarks, Yushchenko also prepared the ground for austerity measures to combat the crisis. He said government and Presidential Secretariat personnel should be reduced by 20 percent

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and the budget should remain balanced. Yushchenko also stated that he had reached an understanding with the IMF that social spending should be maintained at "real levels," implying that future growth rates in public sector wages and in pensions may be more closely linked to the growth in labor productivity.

NBU, PM, President All Hint at IMF Deal

17. (SBU) Stelmakh said on October 20 that the IMF may conclude negotiations on a stabilization package as soon as this week. Timoshenko announced that talks would be finalized after October 27, saying "we have practically concluded negotiations with the IMF at this moment. The package is 90 percent agreed upon, in terms of what laws and necessary government decisions Ukraine must adopt to receive this essential financial assistance next week." These statements were corroborated by Yushchenko, who announced after his October 21 meeting with IMF delegation head Ceyla Pazarbasioglu, that benefits and social risks of IMF conditionalities had been vetted. In their public statements on the IMF, neither Yushchenko nor Tymoshenko made reference to the IMF timeline mentioned by the Prime Minister in her October 20 discussion with the Ambassador (Ref B).

Currency and Ratings to Move Downward?

18. (SBU) NBU Deputy Governor Oleksandr Savchenko told reporters on October 21 that the National Bank is prepared to continue interventions on the interbank currency market. At the same time, he said the exchange rate should float more freely. According to Savchenko, the NBU will try to bring the official hryvnia exchange rate closer to the market rate and expects that both will equalize in the coming weeks. In recent days the NBU has intervened sporadically, selling small amounts of dollars far below the rates traded in the interbank market. Since the beginning of October, the NBU has spent nearly \$2 billion on interventions.

19. (U) Moody's lowered its ratings on twelve Ukrainian banks, the agency said in a press release. Fitch said it had lowered the ratings on ten banks following its downgrade of Ukraine's sovereign rating.

Comment

¶10. (SBU) It is assumed that any emergency plan proposed by the NSDC or Cabinet of Ministers should reflect the IMF's conditionalities. Likewise, the NBU's public statements on a more flexible exchange rate policy may be preparing the public for an austerity program and hryvnia devaluation. Yushchenko has already taken the first step to align himself with the necessary measures, by presiding over NSDC proposals and suspending his decree on the Rada's dissolution. A lack of action at the Rada on October 21, combined with uncoordinated statements by the President and Prime Minister on the necessary anti-crisis and austerity measures, however, reveal that officials in Kyiv remain unable to take the broadly agreed upon next steps in tandem. Achieving consensus with the IMF, as well as implementing conditionalities of an IMF support package, will be difficult as long as both sides cannot publicly show compromise on the contours of an emergency plan. End Comment.